

**Biomass Thermal Energy Council Statement
on Energy Tax Policy and Tax Reform
Hearing of the Subcommittee on Select Revenue Measures and
the Subcommittee on Oversight
House Committee on Ways and Means
September 22, 2011**

The Biomass Thermal Energy Council (BTEC) appreciates the opportunity to share our perspective on federal energy tax policy in the context of comprehensive tax reform. BTEC is an association of biomass fuel producers, forest landowners, appliance manufacturers, combined heat and power project developers, supply chain companies and non-profit organizations that view biomass thermal energy as a renewable, responsible, clean and energy-efficient pathway to meeting America's energy needs. BTEC engages in research, education and public advocacy for the biomass thermal energy sector.

Summary

Our nation's tax code has long played a key role in shaping and influencing national energy policy. In the renewable energy arena, the code features numerous incentives for most renewable energy technologies in residential, commercial and industrial installations. In fact, analysis provided by the Joint Committee on Taxation in preparation for this hearing lists 80 separate energy-related tax provisions in existing law. Unfortunately, none of these incentives extends to high efficiency biomass thermal energy, despite the fact that biomass thermal energy fulfills all the same public policy objectives as other renewable energy sources. Examples of biomass thermal projects and technologies include heating of homes, businesses, commercial and industrial buildings; district heating of campuses, densely developed commercial and industrial parks; and whole neighborhoods and city downtowns; domestic hot water for large consumers such as hospitals; industrial process heat for companies in food processing, metallurgy, and pharmaceuticals, and combined heat and power projects that produce both heat and electricity for consumers.

BTEC strongly supports tax reform efforts that provide a level playing field for competing energy technologies. Specifically, we propose parity in tax incentives for high efficiency biomass thermal combustion technology to include:

- Eligibility for the 30 percent residential renewable energy tax credit under section 25D of the Internal Revenue Code
- Eligibility for the 30 percent business energy investment tax credit under section 48 for commercial and industrial installations.
- Accelerated depreciation of capital investments similar to what also exists for other renewable technologies, including biomass electric generation.

The incentives will help build a market for high efficiency systems that can reduce American dependence on foreign fossil energy, reduce greenhouse gas emissions, and create jobs and local economic development from a renewable domestic energy resource.

Including biomass thermal in Sections 25D and Section 48 will provide the highest possible return for the country in terms of reductions in fossil fuel imports and jobs created. Per dollar of federal support, biomass heating displaces ten times more fossil fuel than solar installations or ethanol and is proven to create a greater number of ongoing jobs. Biomass has accounted for 40 percent of the renewable energy jobs in Germany, more than wind, solar or liquid fuelsⁱ. Even if the existing incentive levels were reduced to address current fiscal constraints, inclusion of biomass among renewable energy incentives will provide the United States the greatest possible economic growth from that investment.

Background

America's energy consumption can be divided into thirds: roughly one-third transportation, one-third electricity, and one-third heat (or thermal). Energy policy to promote renewable energy has focused almost entirely on transportation fuels such as ethanol and biodiesel, and electricity from hydro, wind, solar, geothermal and biomass. These fuels and technologies have received support from the federal government in the form of production and investment tax credits, accelerated depreciation, research and development funding, direct project grants, and renewable energy credits (e.g. state-level renewable electricity programs). The 2005 Energy Policy Act, the 2007 Energy Independence and Security Act, and the 2009 American Recovery and Reinvestment Act boosted support for these technologies in many areas.

Absent from the list of qualifying technologies is biomass used to make thermal energy for space heating or industrial process heat. Congress overlooked biomass thermal in 2005, 2007, and 2009 because many lawmakers were unaware of the potential of biomass thermal to cost-effectively address American energy and clean air challenges. As Congress begins to the task of reforming our nation's tax code and reviewing its energy-related provisions, we have the opportunity to correct this oversight.

Potential of Biomass Thermal

Biomass can be used to make heat or combined heat and power in many forms: densified biomass such as pellets or briquettes, wood chips, agricultural residues, fast-growing woody energy crops such as willow and poplar, and grasses such as switch grass or *Miscanthus*. The United States Department of Agriculture (USDA) estimates that there are 1 billion tons of forest and agricultural residues that can be produced sustainably each year for energy. In regions such as the northeast and north-central states that rely heavily on imported fossil energy for home and business heating, biomass has the potential to greatly reduce our consumption of heating oil, propane, and natural gas. The northeast, in particular, is extremely vulnerable to heating oil price shocks and supply disruptions; in that region, biomass can sustainably offset as much as 25% of oil used to heat homes and businessesⁱⁱ.

Super clean, highly efficient combustion technology is rapidly entering the domestic US marketplace. Efficient fuel distribution systems are in place to expand the adoption of central heating systems in home and business heating, industrial process heat, district heating of whole communities, and combined heat and power. This proven technology has been widely deployed in Europe in homes, schools, municipal buildings, factories and any other large institutional, commercial or industrial setting.

Public Interest

Biomass thermal fulfills all the same public policy objectives that are by necessity the basis and justification for renewable energy tax incentives. These include:

- Reduced consumption of foreign fossil energy, thereby increasing America's energy independence
- Increased efficiency of utilization for equivalent energy output, as compared to biomass electric generation and cellulosic biofuels
- Reduced emissions of greenhouse gases due to the carbon neutrality of biomass
- Reduced emissions of certain air pollutants such as sulfur dioxides and mercury, as compared to fossil fuels
- Strengthened local economic development and job creation through domestic production of fuels, system installation and service, and fuel distribution.

Why Are Tax incentives Necessary?

Because of the relatively small market penetration of new biomass combustion, these systems are expensive compared to fossil-fueled systems: installed systems can cost twice as much as a similarly sized oil or gas system. Fuel transport logistics have yet to reach critical mass with few customers spread over large geographic areas, thus increasing the unit cost of fuel distribution. Incentives are necessary to make biomass thermal technology more competitive in the market. In time, with increasing market penetration, these incentives can be scaled down or eliminated. As an example, in Europe, there is a thriving biomass heating business employing tens of thousands of people – and the supply of these fuels continues to be cost competitive, even without ongoing government subsidies.

Crafted correctly, incentives can satisfy the twin objectives of supporting innovation while attracting private capital that is critical to driving long term economic growth.

Conclusion

The current fiscal environment in which our nation is operating necessitates that tax payer dollars be deployed in a manner that maximizes return on investment. BTEC believes that investment in technologies like biomass thermal that achieve optimal efficiency and job creation potential should be a focus of energy tax reform efforts moving forward. We look forward to working with the Committee as it begins its work on this critical issue.

ⁱ <http://www.renewableenergyworld.com/rea/news/article/2008/04/renewable-energy-jobs-soar-in-germany-52089>

ⁱⁱ Northeast Thermal Biomass Working Group 2025 Vision, <http://www.nebioheat.org/vision.asp>

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